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**LOUISIANA INSURANCE GUARANTY ASSOCIATION**

**FINANCIAL STATEMENTS**  
**(Cash Basis)**

**DECEMBER 31, 2010 AND 2009**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 14 2011

LOUISIANA INSURANCE GUARANTY ASSOCIATION

FINANCIAL STATEMENTS

(Cash Basis)

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## TABLE OF CONTENTS

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Financial Statements – Cash Basis</u>	
Statements of Financial Position Arising from Cash Transactions	2
Statements of Activities Arising from Cash Transactions	3
Notes to Financial Statements	4 – 8
<u>Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></u>	9



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**Independent Auditors' Report**

Members and Directors  
Louisiana Insurance Guaranty Association  
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position arising from cash transactions of Louisiana Insurance Guaranty Association (the Association) as of December 31, 2010 and 2009, and the related statements of activities arising from cash transactions for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the cash basis financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Insurance Guaranty Association as of December 31, 2010 and 2009, and its changes in net assets during the years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March, 15 2011, on our consideration of Louisiana Insurance Guaranty Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Since these financial statements are prepared on a cash basis, no liability is recorded for future payments for claims obligations. However, as discussed in Note 7 to the financial statements, the Association regularly estimates liabilities for such losses. These estimated losses have not been audited by us, and accordingly, we express no opinion or any other form of assurance on them.

Baton Rouge, Louisiana  
March 15, 2011

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**STATEMENTS OF FINANCIAL POSITION**  
**ARISING FROM CASH TRANSACTIONS**  
**DECEMBER 31, 2010 AND 2009**

**ASSETS**

	<u>2010</u>	<u>2009</u>
Cash	\$ 1,242,135	\$ -
Investments, at cost	<u>214,406,791</u>	<u>194,753,132</u>
	<u>\$ 215,648,926</u>	<u>\$ 194,753,132</u>

**LIABILITIES AND NET ASSETS**

Outstanding checks in excess of bank balances	\$ -	\$ 3,235,934
Net assets - restricted	<u>215,648,926</u>	<u>191,517,198</u>
	<u>\$ 215,648,926</u>	<u>\$ 194,753,132</u>

The accompanying notes are an integral part of these statements.

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**STATEMENTS OF ACTIVITIES**  
**ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b><u>RECEIPTS</u></b>		
Assessments	\$ -	\$ 2,315,231
Distributions from liquidators	29,830,079	7,552,486
Interest income	8,245,475	12,940,997
Net (loss) gain on disposition of investments	(2,810,878)	731,872
Restitution	9,913	13,985
Other income	13,503	162,436
	35,288,092	23,717,007
<b><u>DISBURSEMENTS</u></b>		
Return of assessments	-	77,311,923
Claims paid	8,041,696	8,198,745
Legal fees and expenses	1,722,149	1,749,963
Claims handling costs	294,495	393,023
Professional and bank fees	195,182	266,507
Staff salaries, taxes, and benefits	566,540	530,764
Travel, meetings, and seminars	12,267	12,412
Building expenses	12,932	12,932
Administrative expenses	311,103	472,047
	11,156,364	88,948,316
<b><u>EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS</u></b>	24,131,728	(65,231,309)
Net assets - beginning of the year	191,517,198	256,748,507
Net assets - end of the year	\$ 215,648,926	\$ 191,517,198

The accompanying notes are an integral part of these statements.

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**1. Significant Accounting Policies**

**Organization**

The Louisiana Insurance Guaranty Association (the Association) is an organization created by the Louisiana Insurance Guaranty Act to pay for the claims against insolvent member insurance companies. Funds are provided for the payment of the claims by the assessment of the remaining member insurance companies. All admitted insurance companies doing business in Louisiana are required to be members of the Association (excluding the following lines of business: life, health and accident, title, disability, mortgage guaranty, and ocean marine insurance, as well as all types of reinsurance).

The Association's day-to-day operations and management are performed by the Association's staff under the direction of the Board of Directors. The Association may also contract with outside staffing services, claims service providers, and other professionals to carry out these functions.

**Accounting Method**

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements; consequently, revenue and related assets are recognized when received, and expenses and related liabilities are recognized when paid. Accordingly, no liabilities are recorded for future payments for return of unearned premiums, loss claims or related expenses. As discussed in Note 7, the Association regularly estimates amounts for such liabilities.

**Equipment and Facilities**

The Association recognizes equipment and facilities as cash disbursements when incurred. These items are not capitalized and depreciated under the Association's cash basis of accounting.

**Income Taxes**

The Association is exempt from income taxes under Internal Revenue Code Section 501(c)(6); therefore, no provision for income taxes has been made.

**2. Restricted Net Assets**

Net assets represent funds collected from member insurance companies, distributions from liquidators, interest income, and other receipts in excess of funds disbursed to pay claims and expenses of the Association. All assets are considered restricted under the Act which created the Association. Excess funds are to be used for the payment of claims, return of unearned premiums and reimbursement of expenses incurred for the insolvent member insurance companies (See Note 7). During 2009, the Associations' Board authorized the return of assessments previously received from member insurers (See Note 7). There were no returns of assessments during 2010.

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**3. Investments**

The Association's investments are recorded at cost and consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>		<u>2009</u>	
	<u>Cost</u>	<u>Estimated Fair Value</u>	<u>Cost</u>	<u>Estimated Fair Value</u>
Short-term repurchase agreements	\$ 849,400	\$ 849,400	\$ 4,044,766	\$ 4,044,766
Money market accounts invested in U.S. Treasury obligations	677,296	677,296	1,397,904	1,397,904
U.S. Treasury notes and bonds	151,224,574	152,527,785	127,393,114	128,644,403
U.S. Government Agency obligations	<u>61,655,521</u>	<u>62,143,932</u>	<u>61,917,348</u>	<u>61,492,443</u>
	<u>\$214,406,791</u>	<u>\$216,198,413</u>	<u>\$194,753,132</u>	<u>\$ 195,579,516</u>

The Association's policy is to purchase securities issued by the U.S. Treasury and obligations issued or guaranteed by the U.S. Government and its Agencies. The estimated fair value of these securities is based on quoted market prices. The Association enters into short-term repurchase agreements with financial institutions whereby the Association purchases U.S. Government securities with an agreement to resell the securities to the financial institution at cost. The Association also deposits funds in money market accounts invested in U.S. Treasury obligations.

The Association purchases securities at premiums or discounts from the contractual maturity amount of the security. Due to the use of the cash basis of accounting, these premiums and discounts are not amortized over the holding period of the security. Instead, these differences are reported as gains or losses upon maturity or sale of the respective security. Accordingly, interest income represents the contractual interest payments received under the investment securities.

The cost and estimated fair value of investments at December 31, 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 41,680,281	\$ 41,445,963
Due after one year through five years	<u>172,726,510</u>	<u>174,752,450</u>
	<u>\$ 214,406,791</u>	<u>\$ 216,198,413</u>

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**4. Assessments**

Louisiana Revised Statute 22:1382 gives the Association the authority to assess member insurance companies the amount necessary to pay the obligations and expenses of the Association. Beginning January 1, 2003, and thereafter, the assessment to member insurance companies is not to exceed an amount equal to one percent (1%) of net direct written premiums during the preceding calendar year, unless changed by the Louisiana Legislature.

The Association has determined that six member companies qualify for earned credits of up to 80% of their annual assessments. Member companies can also qualify for assessment reductions by investing in qualifying Louisiana securities. The Association collected \$2,315,231 during 2009 related to resolution of disputed assessments levied to a member insurer in 2004. There were no assessments collected from members during 2010.

**5. Distributions from Liquidators**

The Association files claims against the estates of insolvent insurers in an effort to recover a portion of the policyholders' claims paid and related expenses from the assets of the insolvent insurers. During the years ended December 31, 2010 and 2009, the Association received \$29,830,079 and \$7,553,030, respectively, of such distributions which are reflected as receipts in these financial statements. During the years ended December 31, 2010 and 2009, the Association also returned \$0 and \$544, respectively, of early access distributions previously received from liquidators under the terms of those agreements. No estimate is available of future potential distributions from liquidations or that may be required to be returned to liquidators due to the inherent uncertainty and difficulty in accurately estimating these amounts.

**6. Building**

On December 3, 2002, the Association purchased land and a building in Baton Rouge, Louisiana to be used for the Association's home office. The Association records self occupancy rent expense and other income.

**7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited)**

The funds of the Association are used to pay insurance claims of insolvent member insurance companies (See Note 2). These claims are pursuant to the Louisiana Insurance Guaranty Law, La. R.S. 22:1375-1394. As of December 31, 2010, the Association had 1,341 open claims files outstanding, a substantial portion of which are involved in litigation. Additionally, other member insurance companies may be declared insolvent subsequent to the date of these financial statements.

Due to the uncertainty involved in accepting and administering insolvent companies, as well as the difficulty in determining reliable estimates, the Association maintains its financial records on a cash basis. However, the Association regularly attempts to estimate the amount of claims and claims administration expenses related to insolvent member insurance companies. This "reserve setting" practice is a common function of managing and administering those losses.

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited) (continued)**

Provided below is an unaudited condensed balance sheet of the Association at December 31, 2010, on a modified accrual basis which recognizes management's estimate of the undiscounted claims and related liabilities. This information is intended to reflect only certain estimated assets and liabilities of the Association and is not intended to represent the financial position of the Association in accordance with accounting principles generally accepted in the United States of America. These estimates are expected to vary as additional information becomes available.

The condensed unaudited balance sheet below does not provide for accruals of amounts due from liquidators of insolvent insurance companies, billed but uncollected member assessments due, capitalization and depreciation of property and equipment, adjustments of investments to estimated fair value, accruals for restitution recoveries, and accruals of operating costs owed at year end not included in the reserves for claims administration expenses.

As described in Note 4, the Association has been granted the authority to assess member insurers at a rate of one percent (1%) of net direct written premiums annually beginning January 1, 2003, which, if assessed, is estimated to produce approximately \$68 million annually. Additionally, La. R.S. 22:1382 provides that if the maximum assessment and other assets available to the Association are insufficient to make all necessary payments, the Association may borrow additional funds or payments can be reduced on a prorated basis and unpaid balances are to be paid as funds become available.

**ASSETS**

	December 31, 2010
	<u>Unaudited</u>
Cash	\$ 1,242,135
Investments, at cost	<u>214,406,791</u>
Total assets	<u>\$ 215,648,926</u>

**LIABILITIES AND NET DEFICIT**

Outstanding checks in excess of bank balances	\$ -
Estimated claims and claims administration expenses payable	<u>257,500,000</u> (1)
Total liabilities	257,500,000
Net deficit	<u>( 41,851,074)</u> (2)
Total liabilities and net deficit	<u>\$ 215,648,926</u>

(1) Represents management's estimate of claims and claims administration expense reserves related to open claim files at December 31, 2010.

The Association has been notified of claims, as well as threatened claims, by certain large insureds of insolvent insurance companies relating to the use and production of asbestos, silica, tobacco, and environmentally hazardous materials. The Association continues to evaluate the merits of these claims, the appropriateness of coverage under the Act, and the amount of potential liability to the Association.

**LOUISIANA INSURANCE GUARANTY ASSOCIATION**  
**BATON ROUGE, LOUISIANA**

**NOTES TO FINANCIAL STATEMENTS**

**7. Estimate of Future Return of Unearned Premiums and Claims Payments (Not Audited) (continued)**

Management includes in the reserve for claims and claims administration expense amounts estimated as the Association's liability for these claims based on present statutes and based on the best information available at this time. However, there are numerous and significant uncertainties regarding the amount of ultimate liability the Association may be responsible for under these claims and when amounts ultimately determined as owed by the Association become due and payable. As facts and circumstances develop, management intends to revise its estimates of these claims liabilities. Revisions in these estimates could result in significant increases or decreases in these estimates.

- (2) Due to the uncertainty of the timing and amount of claims to be paid by the Association, it is unknown whether the Association can meet its claims obligations as they become due. As described in Note 4, the Association has the statutory authority to assess up to 1% of member insurers' net direct written premiums annually if necessary to pay its obligations. The Association's financial resources also include receipt of investment earnings and the continued receipt of proceeds from liquidators of insolvent insurance companies.

**8. Subsequent Event**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, March 15, 2011, and determined that there were no events that would require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

Members and Directors  
Louisiana Insurance Guaranty Association  
Baton Rouge, Louisiana

We have audited the cash basis financial statements of Louisiana Insurance Guaranty Association (the Association) as of and for the year ended December 31, 2010, and have issued our report there on dated, March 15, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Louisiana Insurance Guaranty Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the Association, the Commissioner of Insurance, State of Louisiana, and the Legislative Auditor, State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
March 15, 2011